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By Tiffany Kary and Laura J. Keller  
(Bloomberg) -- A bubble in the leveraged-finance market is  
growing and may burst in 12 to 18 months, said Edward Altman, a  
specialist in credit markets who developed a model for  
predicting corporate bankruptcies.  
“We think it’s building,” Altman told a gathering of  
corporate restructuring experts Wednesday in New York. He said  
the current “benign credit cycle” encouraged by low interest  
rates has been going on for five years and led to a “frothy”  
market. “You’ll be busier at this time next year.”  
A financial crisis isn’t necessarily expected, since few  
economists are also predicting a U.S. economic recession, Altman  
told the Turnaround Management Association, a group of  
consultants, lawyers, liquidators and other professionals who  
advise distressed companies.  
     Altman is the director of research in credit and debt  
markets at New York University’s Salomon Center for the Study of  
Financial Institutions. He developed the “Z-Score,” a method  
of predicting a company’s likelihood of bankruptcy.  
The riskier a company, the more it pays in borrowing costs  
because lenders and bond investors demand higher interest to  
compensate for greater default probabilities.  
Altman predicted the default rate will climb to around 3.3  
percent in 2015 from 2.1 percent because the cost of debt  
capital has risen and the number of companies trading at  
distressed levels doubled last year. Already this year, the  
default rate is 0.85 percent, with the bankruptcy filing of the  
main operating unit of Caesars Entertainment Corp., Altman said.  
  
More Scrutiny  
  
Increased regulatory scrutiny of underwriting standards has  
been predicted by some to hold down leveraged loan issuance this  
year. Companies last year issued $507.9 billion of U.S. loans  
sold to institutional investors, down from a record $684 billion  
in 2013, according to data compiled by Bloomberg.  
Energy Future Holdings Corp., which filed the biggest U.S.  
bankruptcy of 2014, accounted for half of last year’s rate, he  
said. He said he expects the number of big bankruptcy filings to  
rise this year while staying below historic averages.  
He said his predictions about the credit markets are based  
on quantitative factors such as the ratios of debt to earnings,  
and don’t factor in qualitative factors such as rising oil  
prices or geopolitical events.  
Altman identified several possible catalysts for a jump in  
the default rate -- less access to credit and continued drops in  
commodity prices chief among them. Energy producers who issued  
new bonds and took out loans while borrowing costs were low have  
since been hit with plunging oil prices.   
Central banks will eventually have to account for easy-  
money policies, he said. “At some point, they’ll have to back  
up because of their own balance sheets or the lack of success.”  
The last time Altman predicted a bubble was in 2007,  
shortly before the financial crisis. At the time, the debt-to-  
earnings ratio by one measure had peaked at 6.2 in the U.S. Last  
year, that number was 5.8.  
  
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